Synopsis

On

INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY (CSR) ON FINANCIAL PERFORMANCE: AN EMPIRICAL STUDY OF SMEs IN RAJASTHAN STATE

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To

MODY UNIVERSITY OF SCIENCE AND TECHNOLOGY

(Formerly Mody Institute of Technology & Science)

Lakshmangarh

November, 2014

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Chapter1. Introduction

1.1Background of the Study

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, which defines micro, small and medium enterprises as under:

Table 1.1: MSMEs Definition

Enterprises	*Investment in Plant & Machinery (Manufacturing)*	*Investment in Equipment (Service)*
Micro	*Upto ₹ 25 lakh*	*Upto ₹ 10 lakh*
Small	*Above ₹ 25 lakh upto ₹ 5 crore*	*Above ₹ 10 lakh upto ₹ 2 crore*
Medium	*Above ₹ 5 crore upto ₹ 10 crore*	*Above ₹ 2 crore upto ₹ 5 crore*

Source: http://www.sme.gov.eg/English_publications/Issue2_english.pdf

1.2 Statistics about Indian MSMEs

Micro, small and medium enterprises are a vital segment of Indian economy in terms of their contribution towards country's industrial production, exports, employment and creation of entrepreneurial base. They are contributing Table 1.2 shows the statistics about Indian MSMEs

Table 1.2

S.No.	Contribution
1.	Constitute 8 % of GDP
2.	40 % of National exports
3.	Employment of more than 60 million people
4.	Over 26 million MSME units in India
5.	More than 6000 products

(Source: As per available statistics on the basis of report submitted by Ministry of small and medium enterprises (MSMEs 2012), India)

1.3 Corporate Social Responsibility: Definition

The European Commission (2011) has defined Corporate Social Responsibility (CSR) as "a holistic approach integrated with the core business strategy for addressing social and environmental impacts of businesses".

1.4 Corporate Social Responsibility (CSR) in SMEs

Small and Medium enterprises CSR activities are mostly based on ad-hoc decisions and often conducted in an occasional way not formally anchored to the overall business strategy. Decisions with regard to CSR are the result of self-persuasion of owners or managers. Due to constraints that they face in terms of resource and personal that can be deployed for CSR activities, the notions of CSR among SMEs are philanthropic.

Chapter 2: Literature Review

The conceptualization of CSR was the critical process and it occurred gradually. Meanwhile the field of CSR is portrayed through different terms, definitions and approaches from both the academic and the business arena. Chronologically, Kakabadse et al. (2005) study showed that since the 1950s, CSR has developed gradually through several pioneering advancements. It begins with the ideal studies enlightening some important artifacts concerning CSR, its different definitions, interpretations and histrionic changes in its progression from its inception stage to a much broader concept. Table 2.1 shows the conceptual trends of CSR proposed by Lee (2008)

Table 2.1 Conceptual trends of CSR

	1950s and 1960s		1990s
Level of Analysis	Macro-social	→	Organizational
Theoretical Orientation	Ethical/Obligation	→	Managerial
Ethical Orientation	Explicit	→	Implicit
Relationship between Corporate Social Responsibility and Corporate Financial Performance	Exclusive/No discussion	→	Tight coupling

Source: Lee (2008)

2.1 CSR and Financial Performance

Various theories and hypothesis are proposed in the literature for investigating the type of linkage between CSR and financial performance. Table 2.2 shows the summary of the theories and proposed hypothesis.

Table 2.2: CSR and Financial Performance

S.No.	Hypothesis / Theory (s)	Inference (s)	Supporters
1	***"Social Impact Hypothesis"***	CSR has positive effect on financial performance	Freeman (1984); Waddock & Graves (1997); Stanwick & Stanwick (1998); Ruf et al. (2001); Carroll (2000); Brammer & Pavelin (2006); Basu & Palazzo (2008)
2	***Trade-off hypothesis***	Financial performance of the firm is negatively related to the CSR	Salzmann et al.(2005); Moore (2001); Vance (1975); Friedman (1970); Ullman (1985)

3	***Managerial opportunism hypothesis***	Poor financial performance leads to improved social performance	Williamson (1985); Preston & O'Bannon (1997)
4	***Supply and Demand theory***	No relationship between CSR and FP	McWilliams & Siegel (2000); Mahoney & Roberts (2007); Seifert et al. (2003); Nelling & Webb (2009)

2.2 CSR and Financial Performance in SMEs

Alike the CSR literature centering on large corporations, there have been few studies exploring the relationship between CSR and financial performance in SMEs. A brief literature review of such studies is shown in table 2.3.

Table 2.3: CSR and Financial Performance in SMEs

S.No.	Author (s)	Country	Inferences
1	Nair & Sodhi (2012)	Indian SMEs	CSR as a source of CA, and it positively affects financial performance of the firms in the long run
2	Torugsa et al. (2012)	Australian SMEs	SMEs can maximize their financial returns while proactively making progress towards CSR
3	Bnouni (2011)	French SMEs	Existence of a positive, but marginal relationship between the various components of the CSR and FP
4	Evans & Sawyer (2010)	SMEs of South Australian Whyalla Region	CSR as a source of competitive advantage, which in turn improve the image of the business, save costs, and profitable in the long run
5	Liu & Fong (2010)	Chinese SMEs	No significant positive relationship between CSR oriented internal activities and firm's financial performance
6	Hammann et al. (2009)	German SMEs	Socially responsible practices towards employees, customers and to a lesser extent society have a positive impact on the firm and its performance i.e. cost reductions and increase in profits
7	Cristina et al. (2009)	Spanish SMEs	Social responsibility (SR) can be a source of business value generation in the SMEs
8	Jamali et al. (2008)	Lebanon SMEs	SMEs are voluntarily engaged in CSR
9	Avram & Sven (2008)	Austrian SMEs	SMEs do not involve in CSR because of constraints in accessing financial & personal resources
10	Murillo & Lozano (2006)	Spanish SMEs	A strong positive association between CSR and financial performance of the firms
11	Longo et al. (2005)	Italian SMEs	CSR provides CA that leads to positive impact on FP

2.3 CSR and Paybacks

Literature reveals that CSR brings a certain number of benefits for a company. The various paybacks which firms are enjoying as a result of their involvement in CSR activities are shown in table 2.4.

Table 2.4: CSR and Paybacks in SMEs

S.No.	Author (s)	Paybacks
1.	Lancaster (2004); Mittal et al. (2008); Jenkins (2006)	Enhanced business reputation; Source of competitive advantage
2.	Schiebel & Pochtrager (2003); Curran (2005); Pfau et al. (2008)	Socially responsible image of firm; New avenues for the firm in the form of trading partners and increased the ability of attracting capital; Enhances the firm's credibility; Enhanced financial returns
3.	Mandl (2009); Mahmood (2008)	Positive impact on production processes, networking abilities, accessibility of new markets; retention and attraction of skilled and competent employees
4.	Hassan et al. (2013); Asaad (2010); Lee et al. (2012)	Customer's loyalty, retention and satisfaction
5.	Roy (2010); Oberseder et al. (2013)	Enhanced visibility of firm and its product in market
5.	Densil & Oniel (2010)	Longevity of businesses; strategic alliances with stakeholders

2.4 Intangible Assets

Intellectual capital is the total stocks of all the intangible assets, knowledge, and capabilities of a company that could create values or competitive advantages, so as to achieve its excellent goals. Three main components of intellectual capital are: (a) human capital, (b) structural or organizational capital, and (c) customer or relational capital

2.4.1 The Relationship between CSR and Intellectual Capital

Branco and Rodriguez (2007); Passetti et al. (2009); Brammer et al. (2007) suggested the positive effects of CSR activities on the intellectual capital of the firm.

2.4.2 Intellectual Capital and Competitive Advantage

Rivkin (2000); Bontis and Stovel (2002), Edvinsson and Malone (1997); Bontis (1999); Seleim et al. (2004) states that the three intellectual capital elements are interrelated and operate in interactive or collaborative way to form a strong intellectual capital base which creates or influences the firm's competitive position and considered to be the most important source of sustainable competitive advantage.

2.4.3 Intellectual Capital and Financial Performance in SMEs

Cohen and Kaimenakis (2007); Fatoki (2011); Matak et al. (2012); Husnah et al. (2013) in their studies reported that intellectual capital contributes positively to financial performance of the SMEs.

2.5 Market Orientation

"Market Orientation" is defined as the superior understanding of customer's current and future needs and the firm's ability to offer solutions to those needs that are superior to rivals' offerings. MKTOR model of MO proposes three dimensions: "Customer Orientation, Competitor Orientation and Employee Orientation".

2.5.1 Market Orientation, SMEs and Business (Financial) Performance

Table 2.5 shows the brief literature review on the relationship between market orientation and business performance in SMEs.

Table 2.5: Market Orientation, SMEs and Business Performance

S.No.	Author (s)	Country	Inferences
1.	Alizadeh et al. (2013)	Iranian SMEs	A positive and significant relationship between MO and business performance
2.	Mahmoud (2011)	Ghanaian SMEs	MO leads to superior performance
3.	Asikhia (2010)	Nigerian SMEs	The relationship between MO and business performance is moderated by marketing information system and managerial attitude
4.	Dauda & Akingbade (2010)	SMEs based in Lagos	Market orientation affects customer's loyalty, sales growth and profitability
5.	Gaur et al. (2009)	Indian SMEs	MO and business performance shares a positive link

2.6. Entrepreneurial Orientation

Entrepreneurial orientation (EO) refers to the set of entrepreneurial activities in terms of psychological traits, personal values and attitudes which encompasses the methods, practices and decision making style of entrepreneurs. Four dimensions have been identified from literature which is used in the present study and these are "Innovativeness, Proactiveness, Autonomy and Risk taking".

2.6.1 Entrepreneurial Orientation, SMEs and Financial Performance

Table 2.6 shows a brief literature review regarding entrepreneurial orientation and financial performance in SMEs.

Table 2.6: Entrepreneurial Orientation, SMEs and Financial Performance

S.No.	Author (s)	Country	Inferences
1.	Wiklund & Shepherd (2005)	Swedish SMEs	EO positively influences business performance of SMEs
2.	Fairoz et al. (2010)	Srilankan SMEs	A positive association is shared between EO and business performance
3.	Roy et al. (2012)	Rajasthan SMEs	Positively related

4.	Effendi et al. (2013)	Jakarta SMEs	EO doesn't affect the small business performance
5.	Arief et al. (2013)	SMEs of Malang	EO positively affects the firm performance

Chapter 3: Conceptual Framework

3.1 Research Gap

1. Till now all the theoretical and empirical development is made exclusively in the context of large firms where CSR practices are well formalized and publicized. While articles have been calling for research on CSR in small and medium enterprises (SMEs) and it has been particularly scarce on SMEs in developing economies.

2. Secondly the relationship between CSR and financial performance represents the most questioned area of research. In order to investigate the nature of this link, researchers have used diverse instruments and methodologies but all reflecting an absence of conceptual and operational homogeneity.

3. A considerable attention has been paid to firm's survival and organizational mortality and researchers proposed different competitive philosophies (EO, MO and CSR) as an important determinant of the firm's financial performance. Indeed literature is enriched with the kind of studies which are exploring the causal and effect relationship of such competitive strategies i.e. either EO on FP, MO on FP and CSR on FP in SMEs. However the literature is deserted with respect of the studies where scholars have proposed a framework which can reveal the prioritization of these various determinants or indicators of the financial performance specifically in case of SMEs.

3.2 Research Questions

1. What are the business values of SMEs?
2. What is the meaning of corporate social responsibility for SMEs?
3. How do SMEs participate in CSR?
4. Who are the stakeholders for SMEs and how do SME owners engage with them on critical social aspects?
5. What are those factors that influence the adoption of CSR practices by SMEs?
6. What kind of benefits SMEs are evolving through CSR activities?
7. What kind of a link or relationship exists between the corporate social responsibility and financial performance of SMEs?

8. Which are the relevant and important financial performance impacting factors in SMEs?

3.3 Research Objectives

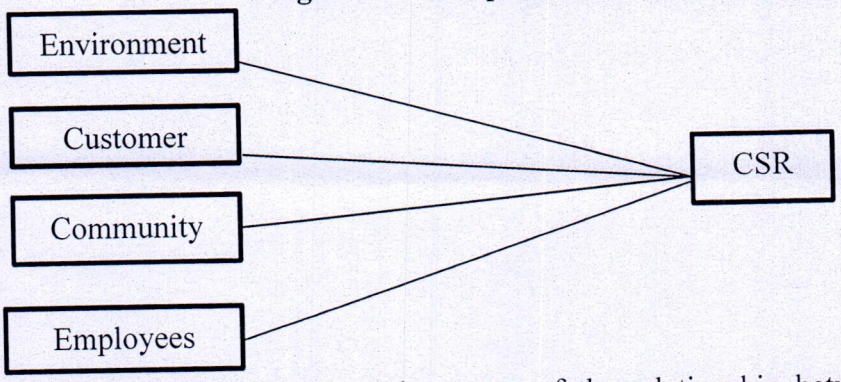
The objectives of the research are as follows:-

1. To determine a functional meaning of the term CSR for SMEs.
2. To uncover the CSR practices currently conducted by SMEs operating in the Rajasthan towards managing their different stakeholders and its paybacks.
3. To evaluate the relationship between CSR and financial performance.
4. To present a framework for prioritizing financial performance indicators in SMEs.

3.3 Hypothetical Models and Hypotheses

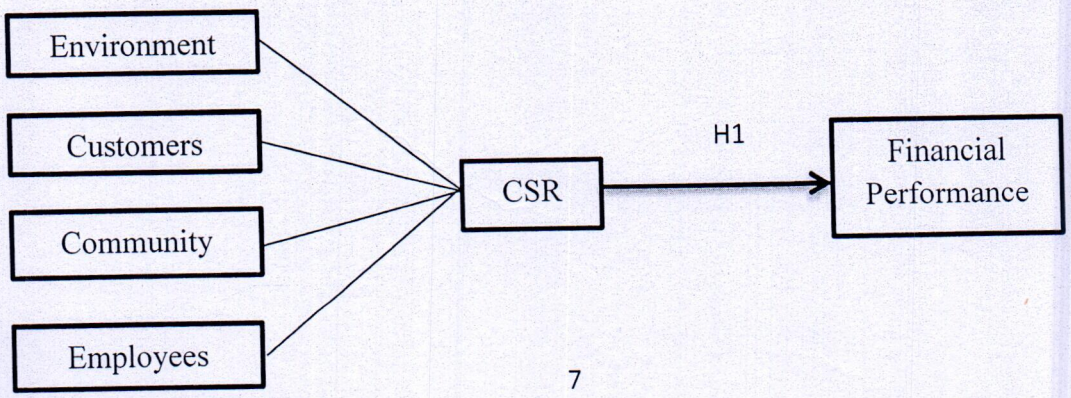
The major stakeholders on CSR in SMEs identified for this research are employees, customers, community and environment (Kawamura, 2003; Wulfson, 2001; Lepoutre and Heene, 2006; Gulyas, 2009). The proposed measures of CSR are represented in the figure 3.1.

Figure 3.1:- Proposed Measures of CSR



3.3.1 Model 1: Assess and explore the nature of the relationship between CSR activities of SMEs through multistakeholder's framework and its impact on their financial performance. The study proposes the following hypothesis and figure 3.2 shows the proposed model 1.

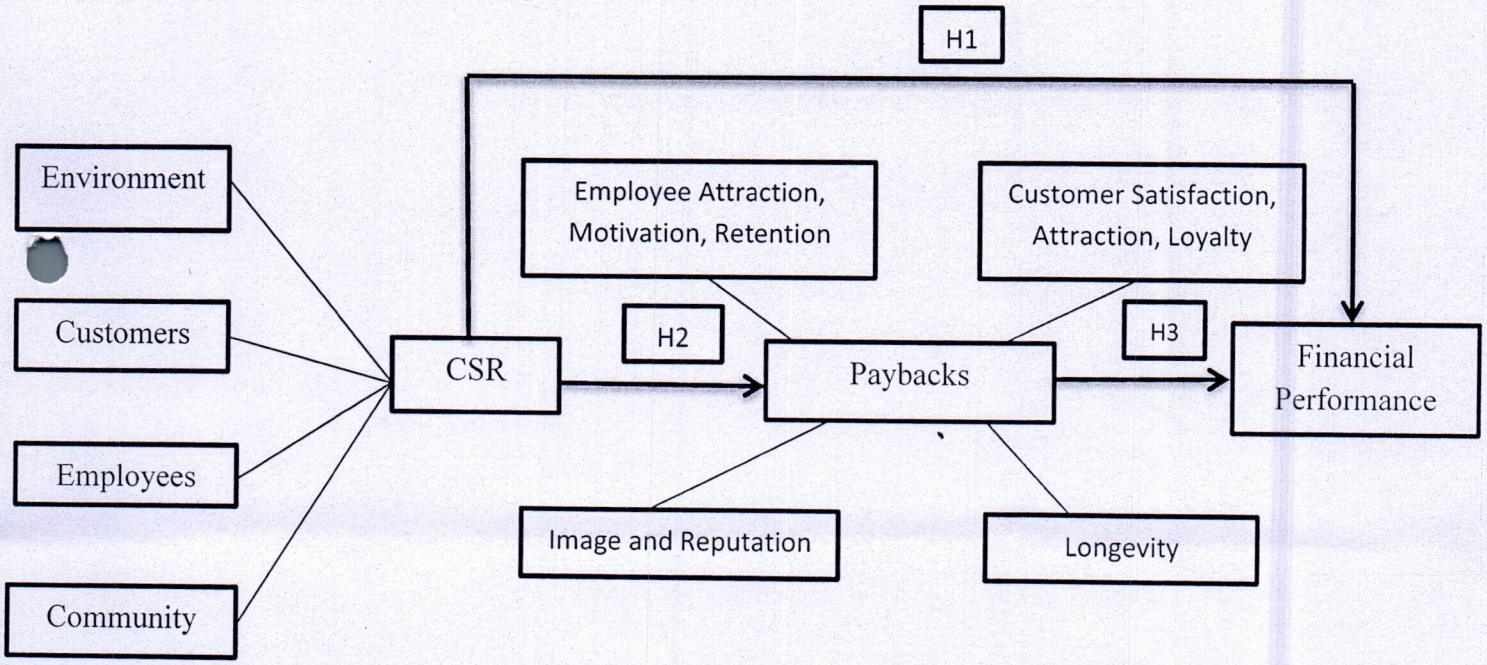
Figure 3.2:- Proposed Model (1)



H1:- There is a significant relationship between CSR and Financial Performance of SMEs

3.3.2 Model 2: Assess the relationship between CSR and financial performance in SMEs with the mediating role of Paybacks in terms of employees and customers attraction, motivation, satisfaction, retention and loyalty, image and reputation of the firm and longevity of relationships. The proposed model 2 is shown in figure 3.3.

Figure 3.3:- Proposed Model (2)



The study proposes the following hypotheses:

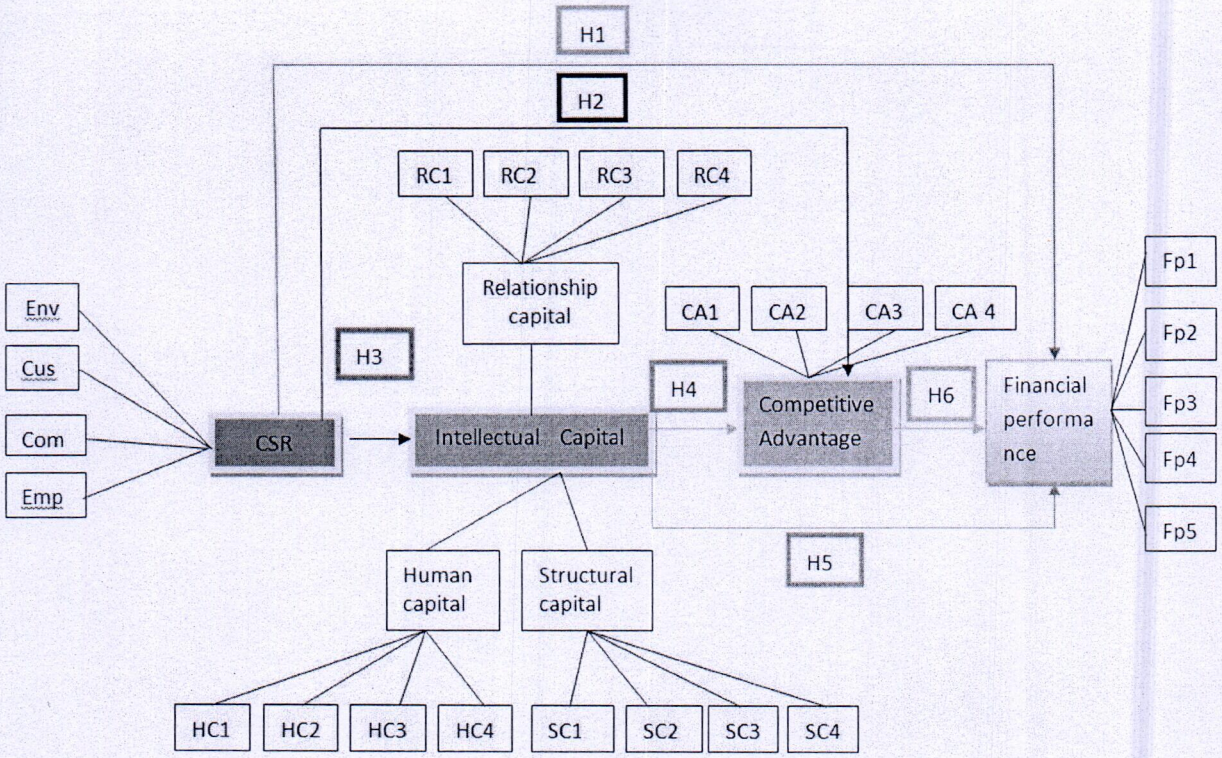
H1: There is a significant relationship between CSR and Financial performance

H2: There is a significant relationship between CSR and Paybacks

H3: There is a significant relationship between Paybacks and Financial performance

3.3.2 Model 3: Assess the mediating role of Intellectual Capital and Competitive Advantage on the relationship between CSR and financial performance in SMEs. The proposed model is shown in figure 3.3.

Figure 3.3:- Proposed Model (3)



The study proposes the following hypotheses:

H1:- There is a significant relationship between CSR and Financial Performance

H2:- There is a significant relationship between CSR and Competitive Advantage

H3:- There is a significant relationship between CSR and Intellectual capital

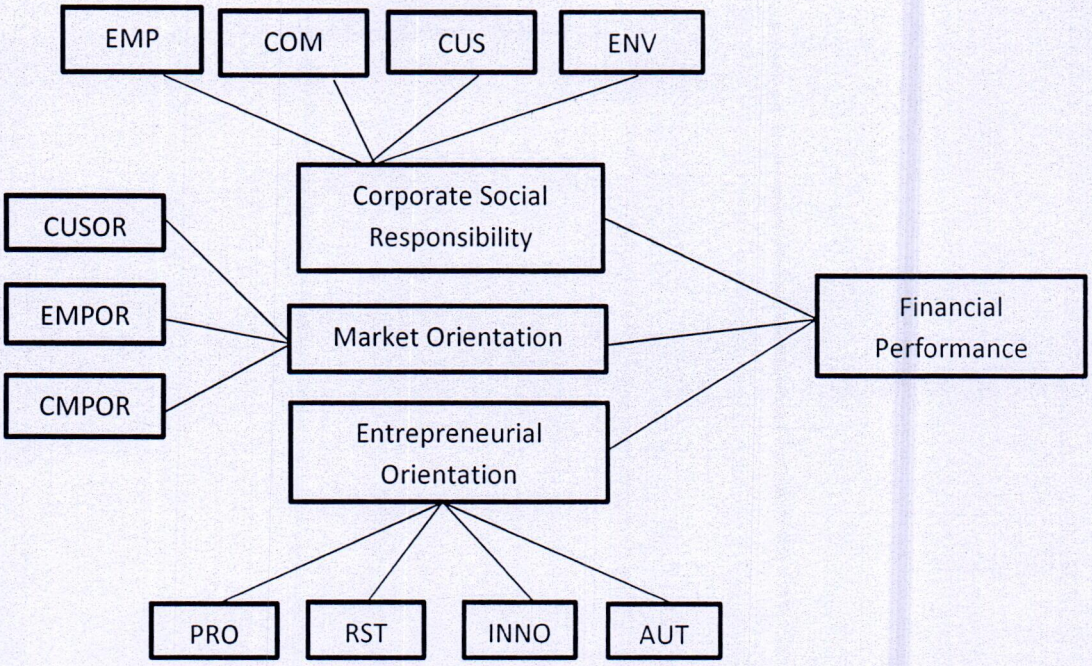
H4:-There is a significant relationship between Intellectual capital and Competitive Advantage

H5:-There is a significant relationship between Intellectual capital and Financial Performance

H6:-There is a significant relationship between Competitive Advantage and Financial Performance

3.3.3 Model 4: Based on the theoretical assertions researcher proposed the model 4 (Figure 3.4) with the framework considered to prioritize the factors impacting the financial performance of SMEs. To accomplish this objective author has identified three factors (CSR, MO and EO) or indicators of financial performance. The objective is to quantify the effect of these factors by making a hierarchy and using AHP.

Figure 3.8.4:- Proposed Model (4)



Chapter 4: Research Methodology

4.1 Research Strategy

"Epistemological Orientation" and "Deductive Approach" that utilizes "Quantitative Data"

4.2 Research Design

Exploratory and Descriptive

4.3 Population and Sampling Frame

- ***Population:*** SMEs of the Rajasthan state.
- ***Sampling frame:*** It is prepared from the records available with the Rajasthan State Industrial Development and Investment Corporation (RIICO).

4.4 Sample Size

- 384 SMEs in different sectors distributed all over the state of Rajasthan.
- 15 experts having an experience of more than ten years and having in depth knowledge about the structural and functional aspects of SMEs in the state of Rajasthan.

4.5 Sampling Technique

- Stratified random sampling

Table: 4.1 Detail of the Sample

Industry Type	Original Sample	Workable Sample	% Workable
Gems and jewellery	61	50	81.96
Carpets and rugs	90	83	92.22

Handicrafts	84	73	86.90
Ceramics and marble	66	53	80.30
Textile and woollen	60	51	85.00
Consumer goods and Food	52	45	86.53
Engineering and Chemical	37	29	78.37
TOTAL	**450**	**384**	**85.33**

Source: Authors own representation

4.6 Data Collection Methods

4.6.1: Secondary Data Collection

a. MSMED Act, 2006

b. SMEs Census report for the year 2006-07 (wherein the data was collected till 2009 and results published in 2011-12)

c. SME growth trends are collected from Entrepreneurs Memorandum (Part-II) filed by MSME at District Industry Centres (DIC) till March 2012

d. Annual reports of MSME-Development Institute, Jaipur

e. The website of UNIDO

4.6.2 Primary Data Collection & Research Instrument

- Survey approach through Structured questionnaire

4.6.3 Respondents

- Owners / managers of small and medium scale enterprises
- 15 experts from academics, industry, trade association, and businessmen

4.6.4 Statistical Tools for Data Analysis and Interpretation

Multivariate analysis is used for the analysis purpose. A two-step approach for SEM technique is adopted for analysing the data as recommended by Anderson and Gerbing (1988)

- ***Step 1: Confirmatory Factor Analysis***:-To specify the relationship between observed variables and latent variables
- ***Step 2: Structural Equation Modeling:-***To specify the relationship among latent variables

Software like Statistical Package for Social Science (IBM SPSS 19) and Analysis of Moment Structures (IBM AMOS 19) are used for multivariate data analysis. Also the categorical variables are tested for associations using contingency tables.

Analytic Hierarchy Process (AHP) analysis is used, a multi criteria decision making tool proposed by Saaty (1994) for developing a framework for prioritizing financial performance indicators in SMEs. It consists of three basic stages:

- ***Step 1:*** Hierarchical structure creation for the decision problem
- ***Step 2:*** Pair-wise comparisons via a structured questionnaire that yield relative priorities (local weights) on the identified criteria
- ***Step 3:*** Synthesis of the relative priorities (local weights) into the global priorities (global weights) that lead to the selection of the final decision

Chapter 5: Data Analysis and Research Findings

Table 5.1 shows the summary of test of associations between various demographic variables.

Table 5.1: Testing Associations between Demographic Variables

S.No.	Hypotheses	Accepted/Rejected
1	H_{01}:There is no association between education of owner/managers and sales revenue	Failed to reject
2	H_{02}:There is no association between business experience (Year in Business) and sales revenue	Rejected; **Value of Cramer's V is 0.136**
3	H_{03}:There is no association between employees size (number of employees) and sales revenue	Failed to reject
4	H_{04}:There is no association between type of industry and sales revenue	Failed to reject
5	H_{05}:There is no association between age of owner and sales revenue	Failed to reject
6	H_{06}:There is no association between industry type and employee size (number of employees)	Rejected; **Value of Cramer's V is 0.176**
7	H_{07}:There is no association between industry type and gender	Failed to reject
8	H_{08}:There is no association between nature of ownership and sales revenue	Failed to reject
9	H_{09}:There is no association between age of an entrepreneur and business experience	Failed to reject

At 5% Level of Significance

5.2 Model 1: Direct relationship between CSR and Financial Performance

Table 5.2 shows the summary of confirmatory analysis for model 1 where a direct relationship between CSR and financial performance in SMEs is determined.

Table 5.2 Summary of Confirmatory Analysis

Variable Label	Final Standardised Loadings	Squared Multiple Correlation	Average Variance Extracted (AVE)	Composite Construct Reliability (CR)
Env1	0.691	0.477	0.53	0.78
Env2	0.683	0.466		
Env3	0.761	0.579		
Env4	0.779	0.606		
Env5	0.729	0.531		
Cus1	0.744	0.553		

Cus2	0.673	0.452	0.48	0.68
Cus3	0.699	0.488		
Cus4	0.658	0.432		
Emp1	0.7	0.490	0.52	0.71
Emp2	0.704	0.495		
Emp3	0.727	0.528		
Emp4	0.765	0.585		
Com1	0.781	0.609	0.57	0.75
Com2	0.782	0.611		
Com3	0.688	0.473		
Com4	0.777	0.603		
Fp1	0.742	0.550	0.57	0.79
Fp2	0.783	0.613		
Fp3	0.754	0.568		
Fp4	0.725	0.525		
Fp5	0.761	0.579		
Env	0.905	0.819	0.77	0.94
Cus	0.902	0.813		
Emp	0.883	0.779		
Com	0.816	0.665		
Model Fit: Chi Square = 286.882 (df = 204), p = .000, RMSEA = 0.033, AGFI = 0.924, RMR = 0.058, GFI = 0.939, TLI = 0.976, and CFI = 0.979				

Table 5.3: Structural Equation Results: Direct Relationship

	R^2
CSR → Financial Performance	0.21

5.3 Model 2: CSR, Paybacks and Financial Performance

Table 5.3 shows the summary of confirmatory analysis for model 2 which tests the mediating role of paybacks on the relationship between CSR and financial performance.

Table 5.4: Summary of Confirmatory Analysis

Factors	Variable Items	Final Standardised Loadings	Average Variance Extracted (AVE)	Construct Reliability (CR)
Customers	CUS1	0.744	0.48	0.68
	CUS2	0.671		
	CUS3	0.699		
	CUS4	0.662		
Employees	EMP1	0.704	0.53	0.71
	EMP2	0.704		
	EMP3	0.725		
	EMP4	0.764		
Environment	ENV1	0.693	0.53	0.78
	ENV2	0.684		
	ENV3	0.762		
	ENV4	0.778		
	ENV5	0.727		
Community	COM1	0.782	0.58	0.75
	COM2	0.781		

	COM3	0.688		
	COM4	0.778		
Employees attraction, motivation & retention	EAMR1	0.707	0.47	0.68
	EAMR2	0.693		
	EAMR3	0.674		
	EAMR4	0.681		
Customers satisfaction, attraction & loyalty	CSAL1	0.667	0.46	0.59
	CSAL2	0.673		
	CSAL3	0.69		
Image & Reputation	IR1	0.623	0.45	0.66
	IR2	0.689		
	IR3	0.671		
	IR4	0.688		
Longevity	LON1	0.727	0.56	0.70
	LON2	0.743		
	LON3	0.777		
CSR	CUS	0.905	0.77	0.93
	ENV	0.896		
	EMP	0.883		
	COM	0.825		
Paybacks	EAMR	0.892	0.60	0.91
	CSAL	0.881		
	IR	0.869		
	LON	0.652		
Financial Performance	FP1	0.744	0.57	0.80
	FP2	0.785		
	FP3	0.755		
	FP4	0.725		
	FP5	0.757		
Model Fit: Chi-square = 776.939, (df = 583) (p = .000); CMIN/DF = 1.333; RMSEA = 0.029; RMR = 0.072; CFI = 0.968; TLI = 0.965; GFI = .903; AGFI = 0.889				

Table 5.5: The Direct Effect Analysis Results

Path from → to	Standardised Estimates	z-value	Supported
CSR → FP (H1)	0.158	2.079**	Yes
CSR → PB (H2)	0.656	8.077*	Yes
PB → FP(H3)	0.458	5.227*	Yes

Notes: * p< 0.001, ** p< 0.05 (two-tailed test)

Table 5.6: The Indirect Effect Analysis Results

Path from → to	Standardised Estimates
CSR → PB → FP	0.303

5.4 Model 3: Intellectual Capital, Competitive Advantage, CSR and Financial Performance

Table 5.7 shows the summary result of confirmatory analysis of model 3 which tests the mediating role of intellectual capital and competitive advantage on the relation between CSR and financial performance.

Table 5.7: Summary of Confirmatory Analysis

Factors	Variable Items	Final Standardised Loadings	Average Variance Extracted (AVE)	Construct Reliability (CR)
Customers	CUS1	0.744	0.48	0.68
	CUS2	0.671		
	CUS3	0.699		
	CUS4	0.662		
Employees	EMP1	0.704	0.53	0.71
	EMP2	0.704		
	EMP3	0.725		
	EMP4	0.764		
Environment	ENV1	0.693	0.53	0.78
	ENV2	0.684		
	ENV3	0.762		
	ENV4	0.778		
	ENV5	0.727		
Community	COM1	0.782	0.58	0.75
	COM2	0.781		
	COM3	0.688		
	COM4	0.778		
Employees attraction, motivation & retention	EAMR1	0.707	0.47	0.68
	EAMR2	0.693		
	EAMR3	0.674		
	EAMR4	0.681		
Customers satisfaction, attraction & loyalty	CSAL1	0.667	0.46	0.59
	CSAL2	0.673		
	CSAL3	0.69		
Image & Reputation	IR1	0.623	0.45	0.66
	IR2	0.689		
	IR3	0.671		
	IR4	0.688		
Longevity	LON1	0.727	0.56	0.70
	LON2	0.743		
	LON3	0.777		
CSR	CUS	0.905	0.77	0.93
	ENV	0.896		
	EMP	0.883		
	COM	0.825		
Paybacks	EAMR	0.892	0.60	0.91
	CSAL	0.881		
	IR	0.869		
	LON	0.652		
Financial Performance	FP1	0.744	0.57	0.80
	FP2	0.785		
	FP3	0.755		
	FP4	0.725		
	FP5	0.757		
Chi-square = 776.939, (df = 583) (p = .000); CMIN/DF = 1.333; RMSEA = 0.029; RMR = 0.072; CFI = 0.968; TLI = 0.965; GFI = .903; AGFI = 0.889				

Table 5.8: The Direct Effect Analysis Results

Path from → to	Standardised Estimates	z-value	Supported
CSR→ FP (H1)	0.154	2.050**	Yes
CSR→CA (H2)	0.321	4.420*	Yes
CSR→IC (H3)	0.623	8.233*	Yes
IC → CA (H4)	0.392	5.051*	Yes
IC → FP (H5)	0.336	3.975*	Yes
CA→ FP (H6)	0.169	2.287**	Yes

Notes: * p< 0.001, ** p< 0.05 (two-tailed test)

Table 5.9: The Indirect Effect Analysis Results

Path from → to	Standardised Estimates
CSR → IC → FP	0.209
CSR → CA → FP	0.054
CSR → IC→CA→FP	0.041

5.5 Model 4: Prioritization of Financial Performance Indicators in SMEs

Table 5.10 shows the summary result of fourth model in which a hierarchical structure model is developed to prioritize the financial determinants (CSR, MO and EO) of SMEs.

Table 5.10: Normalized Weight Matrix of judgement criteria (CSR, MO and EO)

	CSR	MO	EO	Priority Vector (PV)
CSR	0.2100	0.2460	0.1708	0.2089
MO	0.3927	0.4601	0.5059	0.4529
EO	0.3973	0.2940	0.3233	0.3382
CR= 0.022; CI= 0.012; λmax = 3.025; RCI= 0.58for n=3				

Chapter 6: Findings and Conclusions

- The results revealed that employees, customers and environment are the most vital stakeholders for SMEs.
- Deeper analysis of the Small and medium firms operating in Rajasthan in relation to their CSR activities towards their stakeholders and its financial implication indicates a weak positive relationship.
- The empirical results indicate that although these CSR paybacks completely mediates and have a profound effect on the relationship of CSR and financial performance yet its leveraging depends upon the organizational capabilities, available resources, existing market conditions and the most important the business acumen of the owners that how and up to what extent they would like to encash it.
- Rajasthan SMEs are mostly focusing on customers, employees and human capital among all the other dimensions. Although the firms are discharging social responsibilities they

are still not able to gain long term competitive advantage and strengthen their economic performance in a significant manner.

- SMEs consider CSR primarily a caring and value driven model which depends upon the ethnicity of the owners.
- CSR as an optional activity that's why they are doing it on adhoc basis and not following it religiously. It is merely a moral obligation on their part.

Managerial Implications

- Required a more focused and interwoven approach of strategic CSR on the part of SMEs in order to be economically sustainable, i.e. more efficient and profitable in the long run.
- The requirement is to maximize the stakeholder value by focusing on the "triple bottom line" approach more rigorously and systematically. Then only they might be able to materialize the paybacks of CSR and can capitalize on the intangible assets both in monetary as well as in non-monetary forms.
- To maximize the financial performance the SMEs needs to be more market oriented in their approach.
- SMEs need to modify the marketing strategies in such a way that it can be intertwined with the core strategies and can be used as a philosophy to guide the operational activities of the firm.
- Moreover to face the uncertainties of the environment and to grab the prospects an entrepreneurial orientation is required by the firms.
- SMEs are required to compete aggressively with their competitors by introducing innovative products and services in the market. Indeed in the anticipation of future gains it is also required that firms should take risk and takes decisions independently to materialize a concrete plan.

Contribution of the Study

- Contributed to the literature in the form of data and inferences with respect to CSR activities and its impact on the financial performance of SMEs specifically of the developing economy (India, Rajasthan state) which is the deserted area.
- The mediating role of intellectual capital and competitive advantage is simultaneously studied on the relationship between CSR and FP in SMEs. The inferences drawn from this model would help in adding the theory in the literature regarding the intangible assets status of small and medium firms in the context of developing economy.

- The framework developed for the prioritization of financial performance indicators in SMEs would guide the SMEs of the Rajasthan state in restructuring their core strategies in order to maximize their financial performance.

Limitations of the Study

- The first limitation of this study is that it is limited to one country more specific to one geographical area of a country; therefore findings of the study cannot be generalized in terms of its implications to other regions and countries.
- Since the aim of the research was to examine the impact of CSR activities on financial performance of SMEs, for this purpose a survey of perception of the SME owners and managers through a structured questionnaire was considered to be the best choice. However, the attitude and perception of other stakeholders are not addressed in the study.
- The third limitation of this research is that information has been collected at a single point of time. This didn't allow the measurement of financial performance over times as a result of firm's involvement in CSR activities.
- Additionally the other contextual factors like, economic, political, legal and socio-economic factors that could influence SMEs orientation towards the CSR activities were not considered in the study and therefore it may not be appropriate to generalize the inferences to all contexts.

Recommendations for Future Research

- It is suggested that further research needs to be extended to other geographical regions and more in depth analysis of the subject matter could be extracted through the employment of more variables and intermediary routes which are not covered in the study.
- Secondly, it is suggested to conduct a survey of the primary as well as secondary stakeholders such as government, NGOs, supply chain partners in order to find out their attitude and experience with the CSR activities of the firm. Such qualitative research could provide more additional insights into this topic.
- Moreover, a longitudinal study is suggested to provide a more in depth and detailed information regarding the relationship between CSR and financial performance. This would allow the measurement of financial performance over times as extent and degree of CSR changed.

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